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8 *Lead Counsel for Lead Plaintiffs*

9 UNITED STATES DISTRICT COURT
10 CENTRAL DISTRICT OF CALIFORNIA

11 GEORGE BARNEY, Individually and
12 on behalf of all others similarly situated,

13 Plaintiff,

14 v.

15 NOVA LIFESTYLE, INC., THANH H.
16 LAM, YA MING WONG, JEFFERY
17 CHUANG, and YUEN CHING HO,

18 Defendants.

19 Case No. 2:18-cv-10725-AB-AFM

20 AMENDED CLASS ACTION
21 COMPLAINT FOR VIOLATION OF
22 THE FEDERAL SECURITIES
23 LAWS

24 JURY TRIAL DEMANDED

25 Lead Plaintiffs Richard Deutner and ITENT EDV Dienstleistungs GmbH and
26 named plaintiff Daniel Miles (“Plaintiffs”), individually and on behalf of all other
27 persons similarly situated, by Plaintiffs’ undersigned attorneys, for Plaintiffs’
28 complaint against Defendants (defined below), allege the following based upon
personal knowledge as to Plaintiffs and Plaintiffs’ own acts, and information and
belief as to all other matters, based upon, *inter alia*, the investigation conducted by
and through Plaintiffs’ attorneys, which included, among other things, a review of
the Defendants’ public documents, conference calls and announcements made by

Defendants, United States Securities and Exchange Commission (“SEC”) filings, Chinese State Administration of Industry and Commerce filings, wire and press releases published by and regarding Nova LifeStyle, Inc. (“Nova LifeStyle” or the “Company”), analysts’ reports and advisories about the Company, interviews with relevant third-party witnesses, and information readily obtainable on the Internet. Plaintiffs believe that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons and entities other than Defendants who purchased the publicly traded securities of Nova LifeStyle from December 3, 2015 through December 20, 2018, both dates inclusive (the “Class Period”). Plaintiffs seek to recover compensable damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder.

2. Defendant Nova LifeStyle, through its operating subsidiaries, purports to be a designer and marketer of residential and commercial furniture in the United States and in China. The Company operates its mainland China manufacturing operations through its subsidiary Nova Furniture Limited (BVI).

3. In 2014 and 2015 the Company pursued a growth strategy. It had just been listed on the NASDAQ which caused its share price jump more than \$4.00 per share. The Company conducted private placements in both 2014 and 2015 to raise capital. Each private placement was accompanied by an issuance of warrants, which are options to purchase shares at a certain price. The Company told investors that

1 raising additional capital was imperative, otherwise it “may not be able to carry out
 2 all or parts of our strategy to maintain our growth and competitiveness.”¹

3 4. The Company’s Chinese operations were very material and closely
 4 monitored by the Company. In the Company’s 2015 Annual Report filed with the
 5 SEC, the Company explained that it expected “a significant portion of sales” to
 6 come from sales to China, and that it intended to “continue developing the China
 7 retail market aggressively.”²

8 5. The Class Period begins on December 21, 2015, when the Company
 9 falsely announced that it entered into a “strategic alliance” with (China) Shanxi
 10 Wanqing Senior Care Service, Group (“Shanxi”). Pursuant to this agreement, the
 11 Company would design and manufacture furniture for a \$460 million newly-
 12 constructed retirement home. According to the announcement, construction on the
 13 facility had already begun.

14 6. Throughout the Class Period, the Company also told investors that
 15 Shanxi was one of the Company’s largest customers and generated approximately
 16 \$24.6 million in sales for fiscal years 2016 and 2017. The Company asserted that
 17 Shanxi accounted for 10.8% of total sales in 2016 and 13.7% of total sales in 2017.

18 7. The strategic alliance with Shanxi was a sham. In the People’s
 19 Republic of China (“PRC”), all businesses must register with the State
 20 Administration for Industry and Commerce and receive a business license to engage
 21 in any business activity.³ Even opening a bank account requires a license.⁴

22
 23
 24 ¹ See Nova LifeStyle’s 2015 Annual Report filed March 28, 2016 on Form 10-K.
 25 ² *Id.*

26 ³ Regulation of the People’s Republic of China on the Administration of Company
 27 Registration, Article 3 (last amended in 2016).

28 ⁴ “Measures for the Administration of RMB Bank Settlement Accounts” issued in
 April 2003. (No.5 [2003]), Article 49.

1 Plaintiffs' counsel's investigators conducted diligent searches for companies and
 2 sources associated with Shanxi but no such records were found. There is no record
 3 that Shanxi ever existed in the PRC.

4 8. The Company also falsely told investors in its 2017 Annual Report
 5 filed with the SEC on Form 10-K on March 29, 2018 that Merlino Lewis LLP was
 6 one of the Company's largest customers.

7 9. In fact, Merlino Lewis LLP, a former furniture retailer in the United
 8 Kingdom ("UK"), was dissolved in 2013. Plaintiffs' counsel's investigators,
 9 through an examination of corporate records, verified that Merlino Lewis LLP was
 10 originally incorporated in 2008 in the UK and subsequently became insolvent and
 11 was then dissolved in November 2013.

12 10. The fraud was first disclosed publicly to investors on December 21,
 13 2018, when Andri Capital published a report issuing a "strong sell"
 14 recommendation regarding the Company (the "Report"). This marked a dramatic
 15 reversal from Andri Capital's recent November 21, 2018 buy recommendation,
 16 when it called the Company "significantly undervalued." The Report is attached
 17 hereto as Exhibit 1 and incorporated herein.

18 11. The crux of the Report was that Nova LifeStyle lied about its supposed
 19 largest customers -- Shanxi and Merlino Lewis LLP, because they did not exist or
 20 were insolvent:

- 21 • Shanxi did not appear to exist. Its website was not functional and the
 Company was not registered in the PRC, as required by law;
- 22 • There was no evidence of the purported massive project involving
 Shanxi that was supposed to have already commenced at the time the
 press release;

- 1 • Interviews with Shengming Wu, listed as the CEO of Shanxi in the
- 2 press release, revealed that she was actually the director of a small-
- 3 scale nursing home in Xi'an;
- 4 • Merlino Lewis LLP was dissolved in 2013;
- 5 • The Company had an unusually high accounts receivable, meaning
- 6 that it made most of its sales on credit and took over 160 days to
- 7 collect, consistent with inflated sales.

8 12. The report shocked investors, causing Nova LifeStyle's stock price to
9 fall \$0.31 per share or over 40% to close at \$0.46 per share on December 21, 2018.

10 **JURISDICTION AND VENUE**

11 13. The claims asserted herein arise under and pursuant to §§10(b) and
12 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and §78t(a)) and Rule 10b-5
13 promulgated thereunder by the SEC (17 C.F.R. §240.10b-5).

14 14. This Court has jurisdiction over the subject matter of this action under
15 28 U.S.C. §1331 and §27 of the Exchange Act.

16 15. Venue is proper in this judicial district pursuant to §27 of the Exchange
17 Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b) as the Company maintains principal
18 executive offices within this judicial district.

19 16. In connection with the acts, conduct and other wrongs alleged in this
20 Complaint, Defendants, directly or indirectly, used the means and instrumentalities
21 of interstate commerce, including but not limited to, the United States mail,
22 interstate telephone communications and the facilities of the national securities
23 exchange.

24 **PARTIES**

25 17. Lead Plaintiff Richard Deutner purchased the Company's securities at
26 artificially inflated prices during the Class Period as set forth in its shareholder
27
28

1 certification incorporated by reference herein (Dkt. No. 11-2), and has been
2 damaged thereby.

3 18. Lead Plaintiff ITENT EDV Dienstleistungs GmbH purchased the
4 Company's securities at artificially inflated prices during the Class Period as set
5 forth in its shareholder certification incorporated by reference herein (Dkt. No. 11-
6 2), and has been damaged thereby.

7 19. Named Plaintiff Daniel Miles purchased the Company's securities at
8 artificially inflated prices during the Class Period as set forth in its shareholder
9 certification, attached hereto as Exhibit 2, and has been damaged thereby.

10 20. Defendant Nova LifeStyle purports to design, manufacture, and sell
11 residential and commercial furniture to middle and upper middle-income
12 consumers worldwide. The Company was founded in 2003, is incorporated in
13 Nevada, and has principal executive offices located in Commerce, California.
14 According to the Company's website, its collection of furniture brands includes
15 Diamond Sofa, Bright Swallow and others, and appeals to middle and upper middle-
16 income consumers.

17 21. The Company was taken public through a reverse merger in 2011 with
18 Stevens Resources Inc., an exploration stage company originally intended to be in
19 the business of mineral property exploration. The Company's securities are traded
20 on the NASDAQ under the ticker symbol "NVFY."

21 22. Defendant Thanh H. Lam ("Lam") served as the Company's interim
22 Chief Executive Officer ("CEO") from October 2016 until April 2017, after which
23 time she became the Company's CEO.

24 23. Defendant Ya Ming Wong ("Wong") served as the Company's CEO
25 from June 2011 until October 2016.

26 24. Defendant Jeffery Chuang ("Chuang") has served as the Company's
27 Chief Financial Officer ("CFO") since August 2017.

25. Defendant Yuen Ching Ho (“Ho”) served as the Company’s CFO from June 2011 until his resignation in August 2017.

26. Defendants Lam, Wong, Chuang, and Ho are sometimes referred to herein as the “Individual Defendants.”

27. Each of the Individual Defendants:

- (a) directly participated in the management of the Company;
 - (b) was directly involved in the day-to-day operations of the Company at the highest levels;
 - (c) was privy to confidential proprietary information concerning the Company and its business and operations;
 - (d) was directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;
 - (e) was directly or indirectly involved in the oversight or implementation of the Company's internal controls;
 - (f) was aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning the Company; and/or
 - (g) approved or ratified these statements in violation of the federal securities laws.

28. The Company is liable for the acts of the Individual Defendants and its employees under the doctrine of *respondeat superior* and common law principles of agency because all of the wrongful acts complained of herein were carried out within the scope of their employment.

29. The scienter of the Individual Defendants and other employees and agents of the Company is similarly imputed to the Company under *respondeat superior* and agency principles.

1 30. The Company and the Individual Defendants are referred to herein,
 2 collectively, as the “Defendants.”

3 **SUBSTANTIVE ALLEGATIONS OF SECURITIES FRAUD**

4 **Materially False and Misleading Statements**

5 31. The Class Period begins on December 3, 2015, when the Company
 6 issued a press release touting its “strategic alliance agreement with (China) Shanxi
 7 Wanqing Senior Care Service, Group,” which planned to invest \$460 million to
 8 build an expensive and expansive senior care center in Luoyang, Hunan, in China.
 9 According to the Company, “Nova LifeStyle [would] operate as the lead design and
 10 manufacturer for all furnishings in the complex.” The Company further stated that
 11 “[c]onstruction at the property ha[d] already commenced.” The press release stated,
 12 in relevant part:

13 **Nova LifeStyle Signs Exclusive Agreement to Furnish Leading
 14 Chinese Senior Care Center**

15 LOS ANGELES, Dec. 3, 2015 (GLOBE NEWSWIRE) -- Nova
 16 LifeStyle, Inc. (NASDAQ:NVFY) (“Nova LifeStyle” or the
 17 “Company”), a U.S. based fast-growing, innovative designer,
 18 manufacturer and distributor of modern LifeStyle furniture, today
 19 announced that the *Company has signed a strategic alliance
 20 agreement with (China) Shanxi Wanqing Senior Care Service, Group*
*(“Shanxi Wanqing”), a senior care service, senior care home and
 21 hotel development company, to operate as its exclusive supplier for
 22 furniture design and manufacturing.*

23 *Shanxi Wanqing plans to invest a total amount of 3.0 billion RMB
 24 (USD \$460 Million) to build a major senior care center in Luoyang,
 25 Henan province in China, and Nova LifeStyle will operate as the lead
 26 designer and manufacturer for all furnishings in the complex.* Shanxi
 27 Wanqing is managing the project in conjunction with Luoyang Glass
 28 Company Limited (“Luoyang Glass”), a well-regarded, publicly traded
 state-owned enterprise that listed in both Shanghai and Hong Kong

1 Exchange that manufactures and sells sheet glass in over 80 countries
 2 throughout the world.

3 The center will operate as a modern, state-of-the-art senior care hub in
 4 the fifth largest provincial economy of China, comprising of housing,
 5 entertainment, and medical facilities spread over 329.5 acres.
 6 Construction at the property has already commenced, which consists of
 7 individual homes, and the rest of the project will continue throughout
 8 2016. The companies will also collaborate on marketing initiatives,
 9 customer service, and product promotion in China in the coming year.
***Nova LifeStyle is the first American Brand furnishing solution
 provider to be included on a construction project of this scale in
 China.***

11 Management Commentary

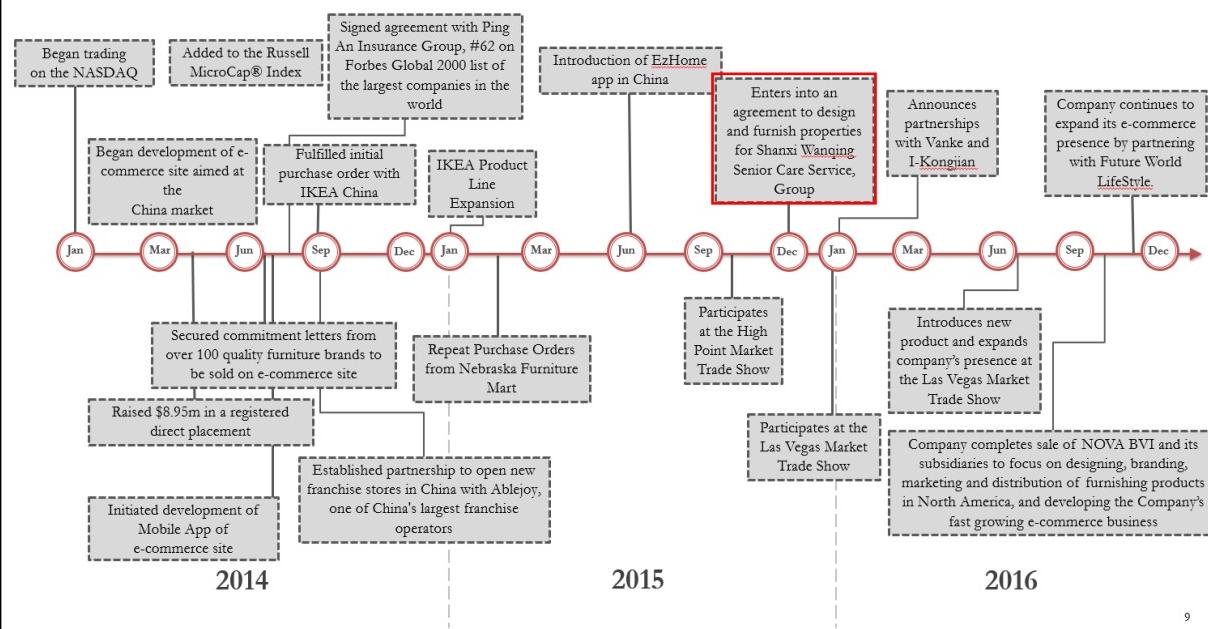
12 Mr. Jeffrey Wong, CEO of Nova LifeStyle, stated, “We are very
 13 pleased to sign an exclusive agreement to partner with Shanxi Wanqing
 14 and work with a well-regarded company such as Luoyang Glass, and
 15 support their plans for a modernized health care center in China.
 16 Partnerships with well-capitalized companies such as Shanxi Wanqing
 17 and Luoyang Glass are critical to increase our exposure in new markets,
 18 such as health care, and generate significant long-term revenue
 19 opportunities for the Company. With our ability to secure such
 agreements, we can better align ourselves with the type of large-scale
 projects that will re-shape modern China in the decades to come.”

20 Ms. Shengming Wu, CEO of Shanxi Wanqing, commented, “We are
 21 pleased to partner with Nova LifeStyle, as we believe that both
 22 companies share the same vision of providing quality lifestyle solutions
 23 for China's elderly. According to the China Research Center on Aging,
 24 nearly 15% of the country's population, over 200 million people, are 60
 25 or older and the Chinese government remains at the forefront of
 modernizing health care options within China. We look forward to
 collaborating with Nova LifeStyle in the years to come.”

26 (Emphasis added.)
 27

1 32. An investor presentation dated December 2016 that touted the
 2 Company's "Milestones and Key Events: 2014 – Present" included the purported
 3 agreement with Shanxi:

4 Milestones and Key Events: 2014 – Present



9

16 33. The December 3, 2015 and December 2016 statements were materially
 17 false and/or misleading because Shanxi was a nonexistent sham company not
 18 registered to do business in China.

19 34. On April 14, 2017, the Company filed a Form 10-K for the fiscal year
 20 ended December 31, 2016 (the "2016 10-K") with the SEC, which provided the
 21 Company's annual financial results and position. The 2016 10-K was signed by
 22 Defendants Lam and Ho. The 2016 10-K contained signed certifications pursuant
 23 to the Sarbanes-Oxley Act of 2002 ("SOX") by Defendants Lam and Ho attesting
 24 to the accuracy of financial reporting, the disclosure of any material changes to the
 25 Company's internal controls over financial reporting, and the disclosure of all fraud.

1 35. The 2016 10-K declared that Shanxi accounted for 10.8% of the
 2 Company's sales, or approximately \$10 million, and stated the following about the
 3 Nova LifeStyle's customers and sales:

4 **Customers**

5 Our target end customer is the middle and upper middle-income
 6 consumer of residential furniture. In the U.S. and international markets,
 7 our sales principally are to furniture distributors and retailers who in
 8 turn offer our products under their own brands or under our Diamond
 9 Sofa brand. ***Our largest customers in 2016 were Shanxi Wanqing***
 10 ***Senior Care Service, Group and Actona Company A/S, a global***
 11 ***furniture distributor, which accounted for 10.8% and 9.7% of our***
 12 ***total sales in 2016, respectively.*** Our two largest customers in 2015
 13 were Actona Company A/S and Encore Sofa Inc., which in total
 14 accounted for 11.8% of our sales in 2015. No other individual customer
 15 accounted for greater than 10% of our sales in 2016 or 2015. We plan
 16 to increase direct sales to retailers and chain stores worldwide as we
 17 continue to diversify our customer base from global furniture
 18 distributors.

19 (Emphasis added.)

20 36. The April 14, 2017 statements were materially false and/or misleading
 21 because Shanxi was a nonexistent sham company not registered to do business in
 22 China.

23 37. On March 29, 2018, the Company filed a Form 10-K for the fiscal year
 24 ended December 31, 2017 (the "2017 10-K") with the SEC, which provided the
 25 Company's annual financial results and position. The 2017 10-K was signed by
 26 Defendants Lam and Chuang. The 2017 10-K contained signed SOX certifications
 27 by Defendants Lam and Chuang attesting to the accuracy of financial reporting, the
 28 disclosure of any material changes to the Company's internal controls over financial
 reporting, and the disclosure of all fraud.

1 38. The 2017 10-K declared that Merlino Lewis LLP accounted 24.3% of
 2 the Company's 2017 sales, or approximately \$25.9 million, and Shanxi accounted
 3 for 13.7% of the Company's sales, or approximately \$14.6 million. It stated
 4 following about the Nova LifeStyle's customers and sales:

5 **Customers**

6 Our target end customer is the middle and upper middle-income
 7 consumer of residential furniture. In the U.S. and international markets,
 8 our sales principally are to furniture distributors and retailers who in
 9 turn offer our products under their own brands or under our Diamond
 10 Sofa brand. *Our largest customers in 2017 were Merlino Lewis LLP,*
Shanxi Wanqing Senior Care Service, Group and Home Centre LLC,
which accounted for 24.3%, 13.7% and 11.5% of our total sales in
2017, respectively. Our two largest customers in 2016 were Shanxi
Wanqing Senior Care Service, Group and Actona Company A/S, a
global furniture distributor, which accounted for 10.8% and 9.7% of
our total sales in 2016, respectively. No other individual customer
 11 accounted for greater than 10% of our sales in 2017 or 2016. We plan
 12 to increase direct sales to retailers and chain stores worldwide as we
 13 continue to diversify our customer base from global furniture
 14 distributors.

15 (Emphasis added.)

16 39. The March 29, 2018 statements were materially false and/or
 17 misleading because: (1) Shanxi was a nonexistent sham company not registered to
 18 do business in China; and (2) Merlino Lewis LLP became insolvent and was
 19 liquidated in 2013.

20 **The Truth Emerges**

21 40. On December 21, 2018, Andri Capital issued a report on *Seeking Alpha*
 22 that alleged Nova LifeStyle's revenues in 2016 and 2017 were overstated because
 23 the Company booked sales to dissolved and nonexistent companies. The Report
 24 further explained that Nova LifeStyle's purported strategic alliance with Shanxi was
 25

1 meant to deceive investors as Shanxi was a sham company. Andri Capital reversed
2 its prior buy recommendation to a “Strong Sell.” The Report stated, in relevant part:

3 **Summary**

4 We have found multiple evidence of serious irregularities that suggest
5 Nova LifeStyle has reported fictitious financials since 2011 - inflating
6 sales for the years 2016 and 2017, totalling approximately \$50.5
7 million. And possibly over \$100 million when accounting for Actona
Company A/S since 2011 and High Fashion Home in 2015.

8 The Company has done this by booking sales to both a dissolved
9 company (Merlino Lewis LLP) and a nonexistent one (Shanxi Wanqing
10 Senior Care Service, Group) (possibly creating a shell company to
deceive investors).

12 Merlino Lewis LLP was dissolved in 2013, but in 2017 NVFY recorded
sales to the company of approximately \$25.9 million.

14 We found no information about Shanxi Wanqing Senior Care Service,
15 Group in the Chinese State Administration registry. Its website is
16 nonexistent and we find the press release issued by Nova LifeStyle on
17 December 3, 2015 hard to believe - asserting doubtful statements by
18 assuming a connection with a publicly-listed, state-owned glass
19 manufacturer (Luoyang Glass) and a known personality in the elderly-
care and nursing-home sector. NVFY recorded sales to Shanxi
Wanqing Senior Care Service, Group of approximately \$10 million in
2016 and \$14.6 million in 2017, totalling \$24.6 million.

21 We contacted other customers of Nova LifeStyle to verify their
relations with the Company. Of the ones that have responded the
22 following do not seem to recognize doing business with NVFY: Actona
Company A/S (possibly accounting for sales of around \$55 million
since 2011), High Fashion Home (sales around \$7 million in 2015).
23 Totalling over \$60 million.

25 Other concerns, such as high levels of accounts receivable, reverse
merger listing, a significant shareholder, questionable auditors, and
26 more, raise red flags that further shine a light on the questionable
practices of Nova LifeStyle.

We contacted Nova LifeStyle regarding all these irregularities, but did not receive a response. Updates will be published here if NVFY contacts us.

We believe this will result in a delisting and share-price drop to near zero.

We reverse our recommendation to Strong Sell.

41. The Report explained that Nova LifeStyle entered into fictitious and/or inflated sales with Merlino Lewis LLP and Shanxi. According to public records, Merlino Lewis LLP was dissolved in 2013. The Report stated, in pertinent part:

Suspicious Activity: Fictitious/Inflated Sales

In its 2017 annual report Nova LifeStyle stated:

“Our largest customers in 2017 were Merlino Lewis LLP, Shanxi Wanqing Senior Care Service, Group and Home Centre LLC, which accounted for 24.3%, 13.7% and 11.5% of our total sales in 2017, respectively. Our two largest customers in 2016 were Shanxi Wanqing Senior Care Service, Group and Actona Company A/S, a global furniture distributor, which accounted for 10.8% and 9.7% of our total sales in 2016, respectively.”

Looking beyond the numbers we discovered the irregularities:

Merlino Lewis LLP

This company appears to have been dissolved in 2013 (*Source: The Gazette - UK's official public record of statutory notices.* (A simple Google Search for “Merlino Lewis LLP” also quickly reveals the above fact.). Therefore, it couldn't possibly have been a customer of Nova LifeStyle in 2017 - four years later after being liquidated and closed down.

This company supposedly accounted for 24.3% of NVFY's total sales in 2017, or approximately \$25.9 million (24.3% of \$106,494,132 total sales). (Source: Annual report 2017)

1 We contacted Nova Lifestyle regarding the appearance that Merlino-
 2 Lewis LLP was dissolved during periods when Nova Lifestyle claimed
 3 sales to them, but did not receive a response.
 4

5 42. The Report detailed the results of an investigation into Shanxi, the
 6 purported strategic alliance, and the purported sales. Notably, no record of Shanxi
 7 exists in China. Furthermore, there was no mention of the senior care center project
 8 in the quarterly and annual financial reports of the publicly-traded Luoyong Glass,
 9 another company supposedly involved with the project. The Report stated, in
 relevant part:

10 **Shanxi Wanqing Senior Care Service, Group**

11 On December 3, 2015 NVFY announced that it had signed a strategic
 12 alliance agreement with Shanxi Wanqing Senior Care Service, Group
 13 to operate as its exclusive supplier for furniture design and
 manufacturing. According to the press release:

14 *"Shanxi Wanqing plans to invest a total amount of 3.0 billion RMB
 15 (USD \$460 Million) to build a major senior care center in Luoyang,
 16 Henan province in China, and Nova LifeStyle will operate as the lead
 designer and manufacturer for all furnishings in the complex."*

17 We have performed a search for this company in China with no results,
 18 i.e. no company by this name (or a similar one, in English or Chinese)
 19 seems to exist. Its supposed website is also not functional (wanqing-group.com). (Source: State Administration for Industry and Commerce
 20 of the People's Republic of China)

21 However, we still found a company by this exact name incorporated in
 22 Nevada, USA. But it was registered on August 26, 2016 - nearly one
 23 year later after the announcement - and looks like an empty shell
 24 company, with the same person (Benedict Lo) serving as president,
 25 director, treasurer and secretary, and the business license likely expired
 on August 31, 2017. (Source)

26 One must ask, why would a private Chinese-based company, operating
 27 senior care centers in China, be incorporated in Nevada, USA? Also,

1 the press release states that “construction at the property has already
2 commenced”, so the company must have existed before the
3 announcement was made in 2015. However, the (Nevada-based)
4 company was incorporated in 2016 - a year later, and making no sense
at all.

5 * * *

6 In regards to the cooperation with the publicly-traded, state-owned
7 glass manufacturer Luoyang Glass: We read through all the
8 firm's quarterly and annual reports since 2014, and not once was
9 anything mentioned about Shanxi Wanqing or a senior care center
10 project. Multiple searches about any relations between this project and
11 Luoyang Glass further revealed nothing. Considering the supposedly
12 large scale of the project (3 billion RMB or \$460 million), it is simply
strange that not a single comment can be found about it anywhere
outside of the press release by Nova LifeStyle.

13 All in all, we found no company registered in China by the name
14 “Shanxi Wanqing Senior Care Service, Group”, no evidence of any
15 links to Luoyang Glass, and no affiliations with Ms. Shengming Wu
16 (who at the time of the announcement was a managing director of a
17 single elderly home, dreaming of running her own small nursing home
18 in the future in Xi'An - not a CEO of a multimillion dollar senior-care
and hotel-development company already constructing a gigantic
complex in Luoyang, Henan).

19 Based on the above, the statement by Nova LifeStyle has no support to
20 be true. A few months before the press release shares of Luoyang Glass
shot through the roof - going from 5 CNY in early 2014 to 45 CNY in
21 October, 2015. The life story of Shengming Wu was also quite
22 prominently featured in China. At the very least this Shanxi Wanqing
23 Senior Care Service, Group is a significant irregularity, and in a worst-
case scenario at most a complete fabrication or severe distortion of the
truth.

24 Shanxi Wanqing Senior Care Service, Group supposedly accounted for
25 13.7% of NVFY's total sales in 2017, or approximately \$14.6 million
26 (13.7% of \$106,494,132 total sales), and 10.8% of total sales in 2016,

1 or approximately \$10 million (10.8% of \$92,648,195 total sales). That's
2 \$24.6 million in total for 2016 and 2017. (Source: Annual report 2017)

3 43. The author of the Report also found that the supposed CEO of Shanxi,
4 Ms. Shengming Wu, was, in fact, a manager of a small apartment home for the
5 elderly in Xi'An, not the CEO of a multimillion-dollar company.

6 44. The Report also explained that the Company's inflated accounts
7 receivable was consistent with fictitious or inflated sales, stating, in pertinent part:

8 [T]he Company has made most of its sales on credit while taking over
9 160 days to collect outstanding sales (source). This has led the
10 receivables account to balloon to approximately 67% of assets in 2017
11 (source). High level of accounts receivable is generally a cause for
12 cash-flow concerns but it can also be an indication of fictitious or
inflated sales.

13 To continue reporting fictitious or inflated sales (and receivables) and
14 likely avoid investor scrutiny a company must either continue to grow
15 its revenue or find alternative ways to justify a large account; e.g. by
16 adjusting or manipulating other accounts (perhaps growing inventories,
17 fixed assets, or increasing advances to suppliers, as we saw NVFY do
18 in Q3 2018), increase bad debts allowance, or vary the sales levels (e.g.
drive sales fluctuations replaced the next one with new sales, thereby
deceiving and drawing attention away from the receivable account) -
all to avoid "cashing in" the fictitious receivables.

19 45. On this news, shares of Nova LifeStyle fell \$0.31 per share or over
20 40% to close at \$0.46 per share on December 21, 2018.

21 46. Flatly, to conduct any business in China, a company must be registered
22 with the SAIC⁵ and possess a business license. Plaintiffs' counsel's investigators

23
24
25
26 ⁵ The SAIC (State Administration for Industry and Commerce) is the Chinese
27 government body that regulates industry and commerce in China. It is primarily
28 responsible for business registration, business licenses issuing and renewing, and

1 confirmed that Shanxi was never registered and therefore never possessed a business
2 license. Hence, legally, Shanxi never operated in the PRC. Consistent with this, after
3 a diligent search, investigators were unable to find any companies or sources linked
4 with Shanxi.

5 47. Plaintiffs' counsel's investigators confirmed via a search of corporate
6 records that Merlino Lewis LLP, previously a UK furniture retailer with principal
7 offices at Unit 3 Ardath Road, Kings Norton, Birmingham, B38 9PL, became
8 insolvent and was liquidated in November 2013. It remains so to this day. The
9 insolvency report stated that the company had no estimated assets and that there
10 would be no return for creditors. A copy of the insolvency report is attached hereto
11 as Exhibit 3.

12 48. Former Employee 1 was formerly employed by the Company's
13 Chinese subsidiary, Nova Dongguan, from November 2014 until April 2016. She
14 worked as a Production Material Control controller, meaning she was responsible
15 for coordinating the progress of raw materials and production in Nova Dongguan.
16 She also prepared a material requisition plan and ensured material quality. She had
17 no knowledge of the Shanxi project.

18 49. As a result of Defendants' wrongful acts and omissions, and the
19 precipitous decline in the market value of the Company's securities, Plaintiffs and
20 other Class members have suffered significant losses and damages.

21 **Additional Allegations Demonstrating Scienter and Falsity**

22 _____
23
24 acts as the government supervisor of corporations. All Chinese companies are
25 required to file financial statements with the Chinese government annually or bi-
26 annually.
27
28

1 50. That Nova LifeStyle became public through reverse merger on June 30,
2 2011—avoiding the scrutiny of underwritten public offering—supports a strong
3 inference of scienter.

4 51. Notorious fraudster Benjamin Wey’s involvement as an undisclosed
5 control person of Nova LifeStyle supports a strong inference of scienter. According
6 to an affidavit submitted in support of a search warrant by Matthew Komar, a special
7 agent with the Federal Bureau of Investigation (“Komar Affidavit”, attached hereto
8 as Exhibit 4), Benjamin Wey spearheaded the Company’s reverse merger.⁶ He used
9 nominees, including his sister, Tianyi Wei, to hold large blocks of Nova LifeStyle
10 to conceal his beneficial ownership of the company.⁷ According to records provided
11 by Nova LifeStyle’s transfer agent, Interwest Stock Transfer, Nova LifeStyle issued
12 approximately 675,000 shares in late 2011 to entities controlled by Benjamin Wey’s
13 sister.⁸ Then, Wey attempted to reach out to investment banks to solicit purchases of
14 Nova LifeStyle in a secondary offering.⁹

15 52. Benjamin Wey’s modus operandi was to secretly control chunks of
16 shares of companies for which he engineered reverse mergers, inflate the stock
17 prices, then sell the shares at artificially high levels.¹⁰ He has damaged several
18 companies via his scheme, including SmartHeat, Inc., Deer Consumer Products, and
19 CleanTech Innovations, Inc.¹¹

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24 ⁶ Komar Affidavit, at 85

25 ⁷ *Id.*

26 ⁸ *Id.*

27 ⁹ Komar Affidavit, ¶

28 ¹⁰ *Id.* at 88.

¹¹ *Id.* at 9, 10.

1 53. On June 22, 2017, Defendant Ho sold 4,156,403 shares of common
 2 stock at artificially inflated prices for proceeds of \$5,860,528. These sales were
 3 unusual as he had never sold stock before.

4 54. On December 30, 2016, the Company filed a Form SC 13D/A with the
 5 SEC. According to the filing, Defendant Wong sold 4,973,903 shares of common
 6 stock at \$2.11 per share. Defendant Wong sold the stock at artificially inflated
 7 prices. These sales were unusual as he had never sold stock before.

8 55. On November 28, 2016, Defendant Lam sold 50,000 shares of
 9 common stock at \$2.95 per share. Defendant Lam sold the stock at artificially
 10 inflated prices. These sales were unusual as she had never sold stock before.

11 56. The Company's high turnover of auditors supports a strong inference
 12 of scienter. Since 2011, the Company has had three independent auditors.
 13 Additionally, the Company's current auditor, DCAW (CPA) Limited ("DCAW")
 14 (now known as Centurion ZD), is questionable at best. DCAW was formed in April
 15 2016, the result of a merger between AWC (CPA) Limited, formerly known as
 16 Albert Wong & Company, and Dominic K.F. Chan & Co. Albert Wong is banned
 17 from being an associated person of a registered public accounting firm, and AWC
 18 (CPA) Limited had its Public Company Accounting Oversight Board registration
 19 revoked on May 19, 2016.¹² Furthermore, in November 2017, there was a
 20 disciplinary case involving Centurion ZD by the Hong Kong Institute of Certified
 21 Public Accountants.¹³

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 25 ¹² See <https://pcaobus.org/News/Releases/Pages/PCAOB-sanctions-hong-kong-audit-firm-new-york-affiliate-four-individuals.aspx>

26 ¹³ See https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6_standards/compliance/disciplinary/2017/11/C-16-1163O_-Eng-press-release_final.pdf

1 **PLAINTIFFS' CLASS ACTION ALLEGATIONS**

2 57. Plaintiffs bring this action as a class action pursuant to Federal Rule of
3 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who
4 purchased or otherwise acquired the publicly traded securities of Nova LifeStyle
5 during the Class Period (the "Class") and were damaged upon the revelation of the
6 alleged corrective disclosure. Excluded from the Class are Defendants herein, the
7 officers and directors of the Company, at all relevant times, members of their
8 immediate families and their legal representatives, heirs, successors or assigns and
9 any entity in which Defendants have or had a controlling interest.

10 58. The members of the Class are so numerous that joinder of all members
11 is impracticable. Throughout the Class Period, the Company's securities were
12 actively traded on the NASDAQ. While the exact number of Class members is
13 unknown to Plaintiffs at this time and can be ascertained only through appropriate
14 discovery, Plaintiffs believe that there are hundreds or thousands of members in the
15 proposed Class. Record owners and other members of the Class may be identified
16 from records maintained by the Company or its transfer agent and may be notified
17 of the pendency of this action by mail, using the form of notice similar to that
18 customarily used in securities class actions.

19 59. Plaintiffs' claims are typical of the claims of the members of the Class
20 as all members of the Class are similarly affected by Defendants' wrongful conduct
21 in violation of federal law that is complained of herein.

22 60. Plaintiffs will fairly and adequately protect the interests of the
23 members of the Class and have retained counsel competent and experienced in class
24 and securities litigation. Plaintiffs have no interests antagonistic to or in conflict
25 with those of the Class.

1 61. Common questions of law and fact exist as to all members of the Class
2 and predominate over any questions solely affecting individual members of the
3 Class. Among the questions of law and fact common to the Class are:

- 4 (a) whether Defendants' acts as alleged violated the federal securities
5 laws;
- 6 (b) whether Defendants' statements to the investing public during the
7 Class Period misrepresented material facts about the financial
8 condition, business, operations, and management of the Company;
- 9 (c) whether Defendants' statements to the investing public during the
10 Class Period omitted material facts necessary to make the statements
11 made, in light of the circumstances under which they were made, not
12 misleading;
- 13 (d) whether the Individual Defendants caused the Company to issue false
14 and misleading SEC filings and public statements during the Class
15 Period;
- 16 (e) whether Defendants acted knowingly or recklessly in issuing false and
17 misleading SEC filings and public statements during the Class Period;
- 18 (f) whether the prices of the Company's securities during the Class Period
19 were artificially inflated because of the Defendants' conduct
20 complained of herein; and
- 21 (g) whether the members of the Class have sustained damages and, if so,
22 what is the proper measure of damages.

23 62. A class action is superior to all other available methods for the fair and
24 efficient adjudication of this controversy since joinder of all members is
25 impracticable. Furthermore, as the damages suffered by individual Class members
26 may be relatively small, the expense and burden of individual litigation make it

1 impossible for members of the Class to individually redress the wrongs done to
2 them. There will be no difficulty in the management of this action as a class action.

3 63. Plaintiffs will rely, in part, upon the presumption of reliance
4 established by the fraud-on-the-market doctrine in that:

- 5 (a) Defendants made public misrepresentations or failed to disclose
6 material facts during the Class Period;
- 7 (b) the omissions and misrepresentations were material;
- 8 (c) the Company's securities are traded in efficient markets;
- 9 (d) the Company's securities were liquid and traded with moderate to
10 heavy volume during the Class Period;
- 11 (e) the Company traded on the NASDAQ, and was covered by multiple
12 analysts;
- 13 (f) the misrepresentations and omissions alleged would tend to induce a
14 reasonable investor to misjudge the value of the Company's securities;
15 Plaintiffs and members of the Class purchased and/or sold the
16 Company's securities between the time the Defendants failed to
17 disclose or misrepresented material facts and the time the true facts
18 were disclosed, without knowledge of the omitted or misrepresented
19 facts; and
- 20 (g) Unexpected material news about the Company was rapidly reflected
21 in and incorporated into the Company's stock price during the Class
22 Period.

23 64. Based upon the foregoing, Plaintiffs and the members of the Class are
24 entitled to a presumption of reliance upon the integrity of the market.

25 65. Alternatively, Plaintiffs and the members of the Class are entitled to
26 the presumption of reliance established by the Supreme Court in *Affiliated Ute*
27 *Citizens of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972),

as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I

**Violation of Section 10(b) of The Exchange Act and Rule 10b-5
Against All Defendants**

66. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

67. This Count is asserted against the Company and the Individual Defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

68. During the Class Period, the Company and the Individual Defendants, individually and in concert, directly or indirectly, disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

69. The Company and the Individual Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they: employed devices, schemes and artifices to defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and/or engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiffs and others similarly situated in connection with their purchases of the Company's securities during the Class Period.

70. The Company and the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public;

1 and knowingly and substantially participated, or acquiesced in the issuance or
2 dissemination of such statements or documents as primary violations of the
3 securities laws. These defendants by virtue of their receipt of information reflecting
4 the true facts of the Company, their control over, and/or receipt and/or modification
5 of the Company's allegedly materially misleading statements, and/or their
6 associations with the Company which made them privy to confidential proprietary
7 information concerning the Company, participated in the fraudulent scheme alleged
8 herein.

9 71. Individual Defendants, who are the senior officers and/or directors of
10 the Company, had actual knowledge of the material omissions and/or the falsity of
11 the material statements set forth above, and intended to deceive Plaintiffs and the
12 other members of the Class, or, in the alternative, acted with reckless disregard for
13 the truth when they failed to ascertain and disclose the true facts in the statements
14 made by them or other personnel of the Company to members of the investing
15 public, including Plaintiffs and the Class.

16 72. As a result of the foregoing, the market price of the Company's
17 securities was artificially inflated during the Class Period. In ignorance of the falsity
18 of the Company's and the Individual Defendants' statements, Plaintiffs and the
19 other members of the Class relied on the statements described above and/or the
20 integrity of the market price of the Company's securities during the Class Period in
21 purchasing the Company's securities at prices that were artificially inflated as a
22 result of the Company's and the Individual Defendants' false and misleading
23 statements.

24 73. Had Plaintiffs and the other members of the Class been aware that the
25 market price of the Company's securities had been artificially and falsely inflated
26 by the Company's and the Individual Defendants' misleading statements and by the
27 material adverse information which the Company's and the Individual Defendants
28

did not disclose, they would not have purchased the Company's securities at the artificially inflated prices that they did, or at all.

74. As a result of the wrongful conduct alleged herein, Plaintiffs and other members of the Class have suffered damages in an amount to be established at trial.

75. By reason of the foregoing, the Company and the Individual Defendants have violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the Plaintiffs and the other members of the Class for substantial damages which they suffered in connection with their purchases of the Company's securities during the Class Period.

COUNT II

Violation of Section 20(a) of The Exchange Act Against The Individual Defendants

76. Plaintiffs repeat and reallege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

77. During the Class Period, the Individual Defendants participated in the operation and management of the Company, and conducted and participated, directly and indirectly, in the conduct of the Company's business affairs. Because of their senior positions, they knew the adverse non-public information regarding the Company's business practices.

78. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to the Company's financial condition and results of operations, and to correct promptly any public statements issued by the Company which had become materially false or misleading.

79. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which the Company disseminated in the marketplace during the Class Period. Throughout the Class Period, the Individual

Defendants exercised their power and authority to cause the Company to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were “controlling persons” of the Company within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of the Company’s securities.

80. Each of the Individual Defendants, therefore, acted as a controlling person of the Company. By reason of their senior management positions and/or being directors of the Company, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, the Company to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of the Company and possessed the power to control the specific activities which comprise the primary violations about which Plaintiffs and the other members of the Class complain.

81. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by the Company.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs demand judgment against Defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiffs as the Class representatives;

B. Requiring Defendants to pay damages sustained by Plaintiffs and the Class by reason of the acts and transactions alleged herein;

C. Awarding Plaintiffs and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

D. Awarding such other and further relief as this Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiffs hereby demand a trial by jury.

Dated: June 18, 2019

Respectfully submitted,

THE ROSEN LAW FIRM, P.A.

By: /s/Laurence M. Rosen
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Lead Counsel for Lead Plaintiffs

CERTIFICATE OF SERVICE

I, Laurence M. Rosen, hereby declare under penalty of perjury as follows:

I am the managing attorney of The Rosen Law Firm, P.A., with offices at 355 South Grand Avenue, Suite 2450, Los Angeles, CA 90071. I am over the age of eighteen.

On June 18, 2019, I electronically filed the following **AMENDED CLASS ACTION COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS** with the Clerk of the Court using the CM/ECF system which sent notification of such filing to counsel of record.

Executed on June 18, 2019.

/s/ Laurence Rosen

Laurence M. Rosen